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May 15, 2000

VOICESTREAM WIRELESS CORP /DE (VSTR)

Quarterly Report (SEC form 10-Q)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE

LITIGATION REFORM ACT OF 1995.

Information contained or incorporated by reference herein that are not based on historical fact, including without limitation, statements containing the words "believes," "may," "will," "estimate," "continue," "anticipates," "intends," "expects" and words of similar import, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which VoiceStream operates; technology changes; competition; changes in business strategy or development plans; the high leverage of VoiceStream; the ability to attract and retain qualified personnel; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; liability and other claims asserted against VoiceStream;

and other factors referenced in VoiceStream's filings with the Securities and Exchange Commission. **GIVEN THESE UNCERTAINTIES, READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS.**

VoiceStream disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments.

The following is a discussion and analysis of the consolidated financial condition and results of operations of VoiceStream and should be read in conjunction with VoiceStream's consolidated financial statements and notes thereto and other financial information included herein and in VoiceStream's Form 10-K for the year ended December 31, 1999. Due to the phase of the business cycle of VoiceStream's personal communications services ("PCS") operations, VoiceStream's operating results for prior periods may not be indicative of future performance.

OVERVIEW

VoiceStream provides wireless communications services in urban markets in the United States through the ownership and operation of PCS licenses and through its minority interest in joint ventures that own and operate similar licenses. VoiceStream also holds an investment in a Canadian PCS operator.

We were formed in 1994 as Western PCS Corporation. Prior to May 3, 1999, we were an 80.1% owned subsidiary of Western Wireless Corporation. The remaining 19.9% was owned by Hutchison Telecommunications PCS (USA) Limited, a subsidiary of Hutchison Whampoa Limited, a Hong Kong company. As the result of a spin-off transaction affected May 3, 1999, we formally separated from Western Wireless' other operations.

On February 25, 2000, we merged with Omnipoint Corporation. Omnipoint, directly and through joint ventures in which it has interests, provides PCS services in urban markets, including New York, NY, Detroit, MI, Boston, MA, Philadelphia, PA, Miami, FL, and Indianapolis, IN.

On February 24, 2000, our shareholders approved a merger with Aerial Telecommunications Inc. Aerial provides PCS services in urban markets including Columbus, OH, Houston, TX, Kansas City, MO, Minneapolis, MN, Pittsburgh, PA, and Tampa-St. Petersburg, FL. The Aerial merger was completed on May 4, 2000. As a result, the reported results of operations for the three months ended March 31, 2000, do not include any of the results of Aerial's operations.

We did not commence operations in any of our markets until February 1996. From that date on we have launched service in a variety of our markets as follows:

1996	1997	1998	1999
-----	-----	-----	-----
Honolulu	El Paso	Phoenix/Tucson	Seattle/Tacoma
Portland	Boise		San Antonio/Austin
Salt Lake City	Denver		Washington DC/Baltimore
Albuquerque			
Oklahoma City			
Des Moines			

Additionally, the following operational markets were acquired as a result of the Omnipoint merger in February of 2000:

New York Indianapolis Detroit Hartford Boston/Providence Albany Miami/Ft. Lauderdale New Haven

Due to the varying dates at which each of the markets became operational, the expenses and revenues incurred during any period may not be comparable to another period and may not be representative of future operations. Additionally, during each period being discussed, a portion of the operating expenses was related to start-up costs incurred before the commencement of operations in each of the markets. Exclusive of depreciation and amortization expense, which was not material, approximately \$0.8 million of start-up costs was incurred in the three months ended March 31, 2000, and \$0.8 million in the three months ended March 31, 1999.

We hold minority interests in joint ventures that have operations in five markets. Our financial accounting for these minority interests differs from that for markets we own because we account for them as investments using the equity method of accounting. Our net share of the revenues and expenses of markets operated by joint ventures are reflected on a single line in our consolidated statements of operations. Additionally, our portion of the assets and liabilities of each joint venture are reflected, net of our portion of each joint ventures' cumulative net income or loss, in one line on our balance sheet.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND 1999

We had 1,811,600 customers at March 31, 2000, a 114.2% increase from December 31, 1999. Of this, 763,300 were acquired as a result of the Omnipoint merger. We had 417,300 subscribers at March 31, 1999, a 29.4% increase from December 31, 1998. The following table sets forth certain financial data as it relates to our operations:

(Dollars in thousands)	THREE MONTHS ENDED MARCH	
	2000	% CHANGE
Revenues:		
Subscriber revenues	\$ 170,750	221%
Prepaid revenues	25,202	2,688%
Roamer revenues	10,184	485%
Equipment revenues	33,910	211%
Other revenues	16,952	1,784%
Total revenues	256,998	280%
Operating expenses:		
Cost of service	62,317	251%
Cost of equipment sales	58,902	133%
Cost of engineering services	283	N.M.
Research and development, net	295	N.M.
General and administrative	79,049	270%
Sales and marketing	87,580	150%
Depreciation and amortization	82,092	219%
Stock-based compensation	5,596	N.M.

Total operating expenses	376,114	200%	
Other income (expense)	(84,214)	327%	
Net Loss	\$ (203,330)	163%	
Adjusted EBITDA	\$ (31,428)	(1)%	
Cash flows provided by (used in):			
Operating activities	\$ (96,313)	124%	
Investing activities	\$ (881,169)	745%	
Financing activities	\$ 918,307	512%	\$

REVENUES

The increase in service revenues (subscriber, prepaid and roamer revenues) is due to: i) the increase in the number of subscribers and ii) an increase in the average monthly subscriber revenue per average subscriber, or ARPU. Additionally, included in the first quarter of 2000 results is \$49.3 million in service revenue generated by the markets acquired in the Omnipoint merger.

The increase in subscribers is partially due to the subscribers acquired as a result of the Omnipoint merger. Also contributing to the increase is the continuing growth in the ten markets operating during the three months ended March 31, 2000, which were also operating during the entire three months of March 31, 1999. In addition, first quarter 2000 results included subscribers in the Seattle/Tacoma, San Antonio/Austin and Washington DC/Baltimore markets that became operational subsequent to the first quarter of 1999. Additionally, we believe our "Get More" advertising campaign, featuring Jamie Lee Curtis, that was initiated in the second quarter of 1998, has contributed to the rapid subscriber growth throughout all of our markets. We intend to continue the "Get More" advertising campaign. We expect it to continue to have a positive effect on subscriber growth.

ARPU was \$54.29 for the first quarter 2000 compared to \$48.80 for the same period in 1999. The addition of the Omnipoint markets increased ARPU by approximately \$1.30. The remaining change is the result of the average minutes per subscriber continuing to increase and new subscribers opting for our most popular and higher priced rate plans.

The increase in prepaid revenues is largely due to the addition of the Omnipoint markets. Omnipoint had a more mature prepaid program than that of VoiceStream and therefore the addition of this program after the merger significantly increased revenues. We expect to continue the prepaid program, with certain modifications to the

supporting systems and marketing plan, and expect that the related revenues will continue to increase through the remainder of 2000.

Roamer revenues are primarily the result of adding the Omnipoint markets. These markets contributed \$4.1 million to the increase for the first quarter. The remaining increase is a result of our continuing effort to procure domestic and international roaming agreements with other carriers. We expect roamer revenues to continue to increase during 2000 due to increased wireless subscribers and our

expanded coverage including the addition of the Aerial operating markets in the second quarter of 2000.

Omnipoint and Aerial offer a variety of rate plans that differ from the plans historically offered by VoiceStream. Over a period of time we will be implementing our operating practices, an overall marketing program, including rate plans, comparable to that in our existing operations. Service revenues are expected to continue to increase, as the base of customers becomes larger. However, the market response to our "Get More" advertising campaign may not be as successful in Omnipoint and Aerial operating markets as it has been in VoiceStream operating markets. As a result, service revenues and/or our customer base may not grow as rapidly as they have in the past.

Equipment revenues increased as a result of more handsets sold. The increase in handsets sold is due to the increase in the number of new operational markets between years and launched continuing subscriber growth in the markets that were operational in both periods. The addition of the Omnipoint markets contributed \$7.0 million to equipment sales in the first quarter of 2000. We anticipate continued growth in equipment sales as a result of continued growth in subscriber additions and the commencement of the "Get More" advertising campaign in the Omnipoint and Aerial markets.

OTHER REVENUES

Other revenues consist primarily of revenue earned as part of the reciprocal technical services agreements and resale agreements we have entered into during 1999 with the Cook Inlet entities. These agreements allow each of VoiceStream and the Cook Inlet joint venture entities to utilize air time on the other's spectrum and/or wireless system infrastructure, in certain agreed upon markets. The agreements are structured such that each performs as a reseller for the other and related fees are charged and paid between the parties. With the addition of the Omnipoint markets, the number of these agreements has increased. We expect to see revenues related to these agreements continue to increase as a result of this and the increase in customer usage activity in 2000.

OPERATING EXPENSES

Cost of service expenses represent expenses incurred only by operational markets. The Omnipoint merger contributed \$12.1 million to the increase in cost of service for the quarter. The remaining increase in cost of service is primarily attributable to the increased costs of maintaining the expanding wireless network and supporting a growing customer base. Cost of service as a percentage of service revenues declined to 30.2% in the first quarter 2000 from 31.8% in the first quarter 1999 due to efficiencies gained from the growing subscriber base. While cost of service expenses are expected to grow in 2000 due to the growth in subscribers and operating markets, VoiceStream expects the cost of service as a percentage of service revenue to decline as greater economies of scale are realized.

Also included in cost of service are fees incurred as part of the reciprocal technical services agreements with the Cook Inlet entities, as described above. Expenses incurred during the three months ended March 31, 2000 were \$19.5 million and expenses incurred during the three months ended March 31, 1999, were \$1.0 million.

Cost of equipment sales increased primarily due to the increase in handsets sold. The Omnipoint merger contributed approximately \$15.4 million to the increase for the first quarter. Although

subscribers generally are responsible for purchasing or otherwise obtaining their own handsets, we have historically sold handsets below cost to respond to competition and general industry practice and expect to continue to do so in the future.

The increase in general and administrative expenses is primarily attributable to the increased costs associated with supporting a larger subscriber base. The Omnipoint merger contributed approximately \$19.3 million to the increase for the first quarter of 2000. General and administrative costs per average subscriber were \$21.90 for the first quarter 2000 compared to \$19.28 for the first quarter 1999. This increase is largely due to the cost incurred during the first quarter of 2000 for the activities to integrate the Omnipoint and Aerial operations. While general and administrative expenses are expected to grow in 2000 due to the growth in subscribers and the addition of new operating markets, VoiceStream expects the costs per average subscriber to begin to decline as greater economies of scale are realized. The efficiencies we expect to gain due to the increased subscriber base may be

partially offset during the remainder of 2000 due to the increased costs associated with integrating our back-end operations with those of Omnipoint and Aerial.

The increase in sales and marketing costs is primarily due to the increase in new subscribers. The Omnipoint merger contributed approximately \$14.4 million to the increase in the first quarter of 2000. Sales and marketing costs per net subscriber added, including the loss on equipment sales, was \$556 for the first quarter 2000 compared to \$520 for the first quarter 1999. This increase is largely the result of changes in our distribution mix. We expect sales and marketing cost per net subscriber added to begin to decline during 2000 due to the anticipated growth in subscriber additions.

The increase in depreciation and amortization expense is attributable to the continued expansion of our wireless systems and the assets and intangibles acquired in the Omnipoint merger. The Omnipoint merger contributed approximately \$7.1 million to depreciation and \$20.0 million to amortization for the first quarter of 2000. FCC licenses are not amortized until the related market is operational. These expenses will increase as new markets become operational and with the addition of the Omnipoint and Aerial markets and systems.

PCS TECHNOLOGY

Cost of engineering services and research and development, net are directly attributable to the costs incurred by a technology subsidiary acquired in the Omnipoint merger in the first quarter of 2000. This subsidiary is party to several engineering contract services agreements.

ADJUSTED EBITDA

Adjusted EBITDA represents operating income (loss) before depreciation, amortization and stock-based compensation. Management believes Adjusted EBITDA provides meaningful additional information on VoiceStream's operating results and on its ability to service its long-term debt and other fixed obligations and to fund its continuing growth. Adjusted EBITDA is considered by many financial analysts to be a meaningful indicator of an entity's ability to meet its future financial obligations, and growth in Adjusted EBITDA is considered to be an indicator of future profitability, especially in a capital-intensive industry such as wireless telecommunications. Adjusted EBITDA should not be construed as an alternative to operating income (loss) as determined in accordance with

United States GAAP, as an alternate to cash flows from operating activities (as determined in accordance with GAAP), or as a measure of liquidity. Because all companies do not calculate Adjusted EBITDA in the same manner, VoiceStream's presentation may not be comparable to other similarly titled measures used by other companies.

The decrease in negative EBITDA for the first quarter 2000 compared to the first quarter 1999 is attributable to increased revenues and operating efficiencies gained from the growing subscriber base, partially offset by increases in general and administrative and marketing costs associated with supporting our larger subscriber base. VoiceStream expects EBITDA to improve through 2000 for its operational markets; however, the commencement of operations in new markets and the continued merger integration activity will slow and could reverse this improvement.

OTHER INCOME (EXPENSE)

The increase in interest and financing expense in the first quarter of 2000 from the first quarter of 1999 is due to the increase in long-term debt. Long-term debt was incurred primarily to fund the capital expenditures associated with the build-out of the wireless systems. Interest expense will increase in 2000 as a result of increased borrowings to fund the continued expansion of the wireless network. The weighted average interest rate, before the effect of capitalized interest, was 10.4% in the first quarter 2000 and 8.8% in the first quarter 1999.

NET LOSS

The increase in net loss is attributable to the increase in depreciation and amortization and the increase in interest expense. Additionally, equity in the net losses of unconsolidated affiliates has increased due to the growth of the operating markets in our joint ventures.

LIQUIDITY AND CAPITAL RESOURCES

Financing and Merger Activities

On February 25, 2000, immediately following the completion of the Omnipoint merger, we entered into a new credit facility with a consortium of lenders. Pursuant to the new credit facility, the lenders

have made available revolving credit loans and term loans in an aggregate principal amount not to exceed \$3.25 billion. The revolving credit portion of the new credit facility is a \$1.35 billion reducing revolving credit. Immediately following the completion of the Omnipoint merger, we used the proceeds of draws on the new credit facility to repay certain long-term debt of Omnipoint. Additionally, portions of the cash equity investments received from Hutchison and Sonera, described below, were used to pay off the remaining balance on the previous credit facility.

The availability of the revolving credit portion of the new credit facility declines over the period commencing three years after the closing date through the eighth anniversary of the closing date in the following percentages: 10% in year four, 15% in year five, 20% in year six, 20% in year seven and 35% in year eight. The term loan portion of the new credit facility is comprised of a \$900 million tranche and a \$1 billion tranche. The \$900 million tranche is required to be amortized at the same rate

that the availability under the revolving credit portion of the new credit facility reduces with a final maturity on the eighth anniversary of the closing date. The \$1 billion is required to be amortized in the following amounts during the period commencing three years after the closing date through the ninth anniversary: \$10 million in each of years four through eight and the remaining balance in year nine.

Borrowings under the \$900 million tranche bear interest, at our option, at an annual rate of interest equal to either (1) the greater of (a) the prime rate, or (b) the Federal Funds rate plus 1/2%, or (2) a Eurodollar rate, in each instance plus an applicable margin. Such applicable margin will range to a maximum of 1.50%, in the case of loans based on the prime rate or Federal Funds rate, and to a maximum of 2.75%, in the case of loans based on a Eurodollar rate, in each case based upon certain factors including the ratio of total indebtedness to operating cash flow, as defined in the new credit facility.

The \$1 billion tranche bears interest, at our option, at an annual rate of interest equal to either (1) the greater of (a) the prime rate, or (b) the Federal Funds rate plus 1/2%, or (2) a Eurodollar rate, plus an applicable margin. Such applicable margin is a fixed percentage of 1.75%, in the case of loans based on the prime rate or Federal Funds rate, and 3.0% in the case of loans based on a Eurodollar rate.

The new credit facility contains affirmative and negative covenants of the borrowers, including financial covenants, and will provide for various events of default. The repayment of the loans is secured by, among other things, the grant of a security interest in the capital stock and assets of VoiceStream and certain of its subsidiaries.

The new credit facility permits up to \$1.5 billion of additional indebtedness, including up to \$1 billion for a vendor facility, which would become part of the new credit facility, by amendment, subject to the same covenants and secured by the same collateral. On April 28, 2000, we entered into a new vendor facility with an infrastructure equipment vendor and a bank that provides up to \$1 billion in senior credit facilities and VoiceStream has agreed to acquire certain equipment, software and services from the vendor. The vendor facility has a maturity of 9.25 years and is available in multiple draws, including \$500 million that was drawn on April 28, 2000, \$250 million that can be drawn by July 14, 2000, and \$250 million that can be drawn by October 31, 2000. Net proceeds of the vendor facility will be used for the same purposes as other proceeds under the new credit facility.

Certain long-term debt agreements of Omnipoint, and now of VoiceStream, contain provisions which required us to offer repayment of outstanding amounts when a change of control occurs. The Omnipoint merger constituted a change of control. Additionally, the holders of the debt issued under certain of these agreements were entitled to a prepayment premium. In accordance with the provisions of such long-term debt, we offered to purchase, at 101% of the principal amount, the 11.625% Senior Notes due 2006 and the 11.625% Series A Notes due 2006. The offer to purchase expired on April 28, 2000. Notes representing \$343,000 of the combined principal amount were redeemed by note holders.

On February 25, 2000, we completed our merger with Omnipoint. Pursuant to the merger agreement, 0.825 of a share of our common stock plus \$8.00 in cash were exchanged for every outstanding share of Omnipoint common stock. There was a cash or share election option available to shareholders of Omnipoint subject to proration. In conjunction with the merger agreement signed on June 23, 1999, we invested a total of \$150 million in Omnipoint, of which \$102.5 million was invested in Omnipoint preferred stock upon signing of the merger agreement, and the remaining \$47.5 million was invested

in Omnipoint preferred stock on October 1, 1999.

In connection with the Omnipoint merger agreement, Hutchison made an investment of \$957 million into the combined company for common and convertible preferred securities. Upon signing of the merger agreement on June 23, 1999, \$102.5 million of this investment was invested directly in Omnipoint preferred

stock. On September 20, 1999, we announced board approval of a merger agreement with Aerial. On February 24, 2000 we obtained approval for the merger from our shareholders, and the merger was completed on May 4, 2000. Under the terms of the agreement, 0.455 of a share of VoiceStream common stock may be exchanged for each share of Aerial Series A Common Shares outstanding. Aerial public shareholders have a right to elect to receive \$18 in cash in lieu of shares of VoiceStream. The election period will end on June 9, 2000. In connection with the Aerial merger agreement, Telephone and Data Systems, Inc. ("TDS") replaced \$420 million of Aerial debt owed to TDS with equity of Aerial at \$22 per share. Sonera invested an additional \$230 million in Aerial equity, also at \$22 per Aerial share.

A subsidiary of VoiceStream holds a 49.9% interest in Cook Inlet/VoiceStream PV/SS, PCS, LP. ("Cook Inlet PCS"). VoiceStream funded the operations of Cook Inlet PCS during the three months ended March 31, 2000 through loans evidenced by promissory notes which are due 180 days after the date of issuance. The weighted average interest rate was 15% for the first quarter 2000. All promissory notes that have come due were replaced with new promissory notes. The total investment in Cook Inlet PCS, including advances under such promissory notes, was \$180.4 million at March 31, 2000 and \$124.6 million at December 31, 1999.

A subsidiary of VoiceStream holds a 49.9% interest in Cook Inlet/VoiceStream PCS, LLC ("CIVS"). This entity owns, among others, the Dallas and Chicago FCC BTA licenses. In January 2000, CIVS reached an agreement with an infrastructure equipment vendor providing CIVS with credit facilities up to \$735 million, composed of a \$160 million revolving credit agreement, term loans of up to \$325 million, consisting of \$125 million in Tranche A and \$200 million in Tranche B, \$100 million of 13% Series A Senior Discount Notes, and up to \$150 million 13% Series A Subordinated Notes. These facilities are not guaranteed by VoiceStream but are secured by certain assets of CIVS. The net proceeds will be used to finance capital expenditures, permitted investments, and for working capital. The amount available for borrowing pursuant to the senior credit facilities, consisting of the revolver and term loans, is based upon certain equipment purchases by CIVS up to a maximum \$435 million available.

In January 2000, Cook Inlet/VoiceStream PCS reached an agreement with an infrastructure equipment vendor providing Cook Inlet/VoiceStream PCS with up to \$735 million, composed of \$160 million revolving credit, term loans of up to \$325 million, \$100 million of 13% Senior Discount Notes, and up to \$150 million 13% Subordinated Notes. The net proceeds of the senior secured facility and the subordinated facility will be used to finance capital expenditures, permitted investments, and for working capital. In order for the full amount of these loans to be available, Cook Inlet/VoiceStream PCS is required to make certain purchases from the vendor.

In February 2000, VoiceStream announced the investment of approximately \$275 million in newly issued Class A shares of Microcell Telecommunications, Inc., a Canadian GSM operator. The per share transaction price was equal to the closing market price of Microcell's publicly traded Class B Non-Voting shares on the Nasdaq National Market System on January 6, 2000, the date the

agreement in principle was reached.

Cash Flow Information

Net cash used in operating activities was \$96.3 million in the first quarter 2000. Adjustments to the \$203.3 million net loss to reconcile to net cash used in operating activities included \$82.1 million of depreciation and amortization, and \$16.3 million of equity in the net loss of unconsolidated subsidiaries. Other adjustments included changes in operating assets and liabilities, including: (i) an increase of \$73.4 million in accrued liabilities due to the increase in accrued interest on long-term debt; and (ii) an increase of \$46.9 million in inventory, due to anticipated increased sales and the number of operating markets; and (iii) an increase in prepaid expenses and other current assets of \$37.7 million due to an increase in short-term notes receivable. Net cash used in operating activities was \$42.8 million in the first quarter 1999.

Net cash used in investing activities was \$881.2 million in the first quarter 2000. Investing activities consisted primarily of: (i) the acquisition of Omnipoint for \$418.2 million; (ii) investments in and advances to unconsolidated affiliates of \$278.4 million, primarily attributable to our \$275 million investment in Microcell, and (iii) purchases of property and equipment of \$179.6 million, largely related to the build-out of the wireless network. Net cash used in investing activities was \$104.3 million in the first quarter 1999.

Net cash provided by financing activities was \$918.3 million in the first quarter of 2000. Financing activities consisted primarily of net proceeds from the issuance of preferred and common stock in private placements and from the exercise of employee stock options totaling \$1.3 billion, partially offset by net repayments on long-term debt of \$334.6 million. Net cash provided by financing activities was \$150.0 million in the first quarter 1999.

In the ordinary course of business, we continue to evaluate acquisitions, joint ventures and other potential business transactions. Any such transactions would be financed with the borrowings under the new credit facility, or through the issuance of additional debt or the sale of additional equity. There can be no assurance that such funds will be available to us on acceptable or favorable terms.

SEASONALITY

VoiceStream, and the wireless communications industry in general, have historically experienced significant subscriber growth during the fourth calendar quarter. Accordingly, during such quarter we experienced greater losses on equipment sales and increases in sales and marketing expenses. We expect this trend to continue.

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